



Washington State Retirement Systems and Pension Funding

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The Washington State Retirement Systems provides retirement plans to employees through more than 10 systems, many with various “plans”.

- ▶ The system serves about 510,000 active members and retirees. Most public employees, except First Class Cities general service employees, are included.
- ▶ Various plans provide “defined benefit” or formula-driven benefits based on service and salary, “defined contribution” benefits based on percentage of pay contributions, or combinations of both.
- ▶ The Legislature is responsible for determining the benefit formulas and ultimate funding decisions.
- ▶ Federal rules must be observed to meet the requirements of “qualified plans” to insure that contributions can be provided to members on a tax-deferred basis.

Many of the pension systems are divided into “plans” or benefit tiers.

► Five main designs:

- **Plans 1** Most closed in 1977. Employee rates fixed in statute.
- **Plans 2** Replaced the Plans 1. contributions are split 50/50 between employees and employers.
- **Plans 3** Hybrid defined benefit/defined contribution plans that first opened in 1996.
- **HERP** Defined contribution plans with a defined benefit guarantee, opened in 1973.
- **Deferred Compensation** Employer non-contributory tax-deferred savings option.

▶ **PERS (Public Employees' Retirement System)**

- ▶ Default plan for non-school district employees.
- ▶ Plans 1 , 2, and 3. Age 65 full ret. age in open plans.
- ▶ About 160,000 active members, 103,000 retired+vested.

▶ **TRS (Teachers' Retirement System)**

- ▶ Covers certificated school district employees.
- ▶ Plans 1, 2 and 3. Age 65 full ret. age in open plans.
- ▶ About 67,400 active members, 49,000 retired+vested.

▶ **SERS (School Employees' Retirement System)**

- ▶ Covers classified school district employees.
- ▶ Plans 2 and 3. Age 65 full ret. age in open plans.
- ▶ About 52,500 active members,

▶ **HERP (Higher Education Retirement System)**

- ▶ Covers employees selected by Higher Ed. Institutions.
- ▶ Covers about 29,000 active members, including 14,000 faculty.
- ▶ Fewer than 1,000 now receiving defined benefits, but growing.

- ▶ **LEOFF (Law Enforcement Officers' and Fire Fighters' Retirement System)**
 - ▶ Covers full-time law enforcement officers' and fire fighters.
 - ▶ 17,000 actives, mostly in Plan 2, 11,000 retirees mostly in Plan 1.
 - ▶ Age 53 full retirement age in Plan 2.
- ▶ **PSERS (Public Safety Employees' Retirement System)**
 - ▶ Covers corrections officers and other public safety personnel.
 - ▶ Newest plan, with about 4,400 actives and very few retirees.
 - ▶ Age 60 full retirement age.
- ▶ **WSPRS (Washington State Patrol Retirement System)**
 - ▶ Covers State Patrol Officers; about 1,100 active, 830 retired.
 - ▶ Plan 1 closed in 2003, Plan 2 now open.
 - ▶ Retirement after 25 years of service or at age 55.

Washington State Retirement Systems Governance System

Legislature

Department of Retirement Systems

- Administer most of the retirement plans (PERS, TRS, SERS, etc.).
- Adopts rules.

Office of the State Actuary

- Calculate funding and rates.
- Advises Legislature, staffs Select Committee on Pension Policy.

Select Committee on Pension Policy

- Studies and makes recommendations about all aspects of plans.
- Has Legislative, Executive, and stakeholder members.

Pension Funding Council

- Adopts contribution rates and assumptions.

Law Enforcement Officers' and Fire Fighters' Ret. Sys. Plan 2 Board

- Adopts contribution rates and assumptions for LEOFF 2.
- Studies and makes recommendations on plan changes.

State Investment Board

- Invests the assets of state retirement plans.

Higher Education Institutions

- Administer the individual Higher Ed. Retirement Plans.
- Each 4-year university, the CTC's, and the HEC Board have a plan.

State pension benefits are subject to very limited change for existing plan members; some rights also extend to the systematic funding of benefits.

▶ *Bakenhus v. City of Seattle*, (1956):

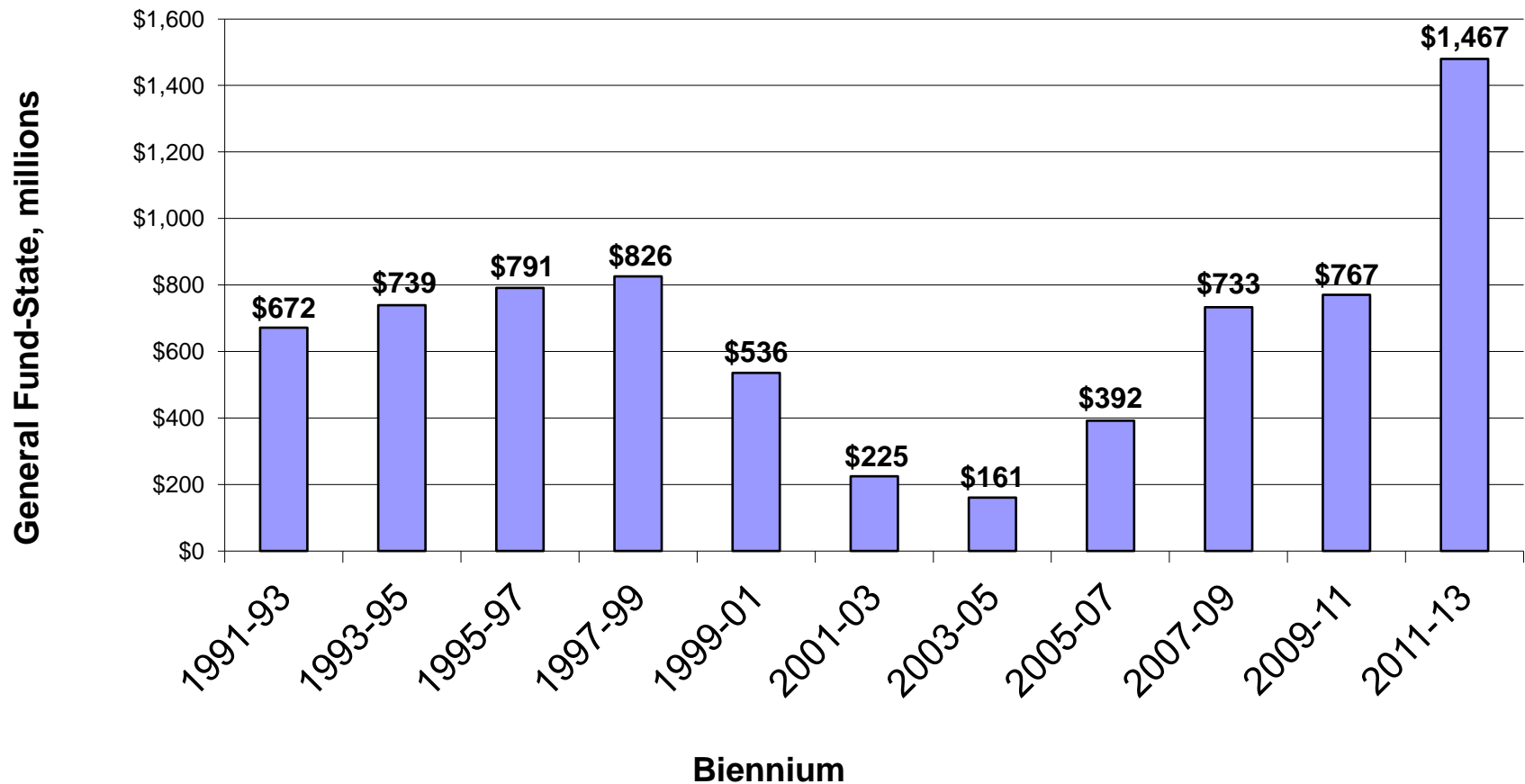
“The employee who accepts a job to which a pension plan is applicable contracts for a substantial pension and is entitled to receive the same when he has fulfilled the prescribed conditions. His pension rights may be modified prior to retirement, but only for the purpose of keeping the pension system flexible and maintaining its integrity.”

▶ *Weaver v. Evans*, (1972):

“Where, as here, the (legislature’s concern) has culminated in the express adoption of a systematic method of funding to ultimately attain the desired soundness, then the principle of systematic funding so adopted becomes one of the vested contractual pension rights...”

▶ Recent cases, including *Navlet v. Port of Seattle* (2008), and Superior Court rulings in the gain-sharing litigation, have raised new questions about the ability of the Legislature to specify that pension benefits may be granted without the creation of protected contract rights.

The Pension Funding Council (PFC) and LEOFF 2 Board rates increased contributions from \$770m GF-S in 2009-11 to about \$1,480m in 2011-13.



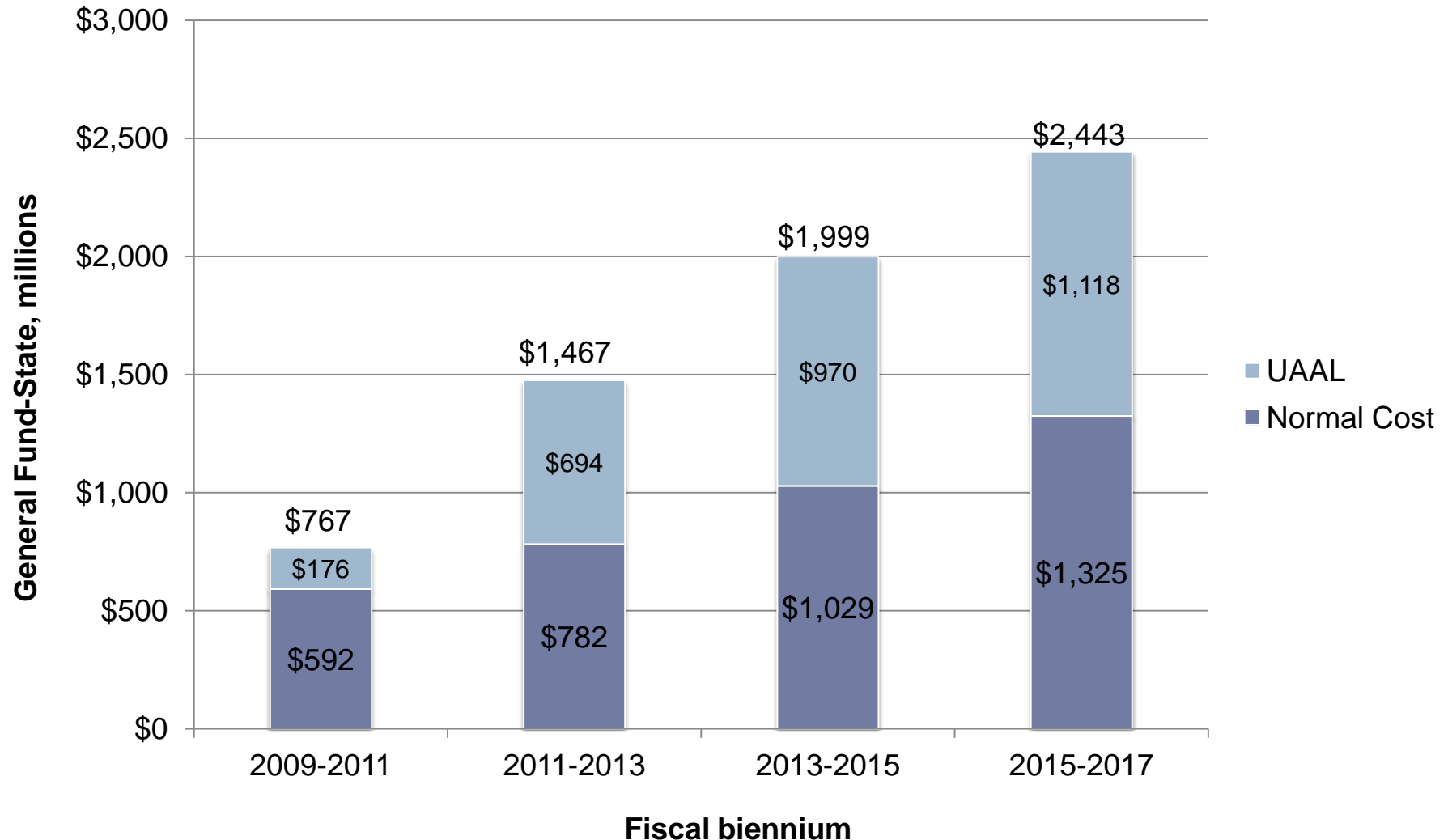
2011-13 and 2013-15 projected rates continue to rise, reflecting asset losses increased Plan 1 Unfunded Actuarial Accrued Liabilities (UAAL) rates.

Percent of pay	FY11		FY12 (PFC and L2 Board adopted rates)		FY13 (PFC and L2 Board adopted rates)		2013-15 Biennium Projected	
	Employer	Plan 2 Employee	Employer	Plan 2 Employee	Employer	Plan 2 Employee	Employer	Plan 2 Employee
PERS	5.31%	3.90%	8.61%	4.59%	9.30%	4.59%	11.09%	5.71%
TRS	6.14%	3.36%	12.11%	4.68%	12.46%	4.68%	15.78%	6.03%
SERS	5.45%	3.15%	8.99%	4.08%	9.68%	4.08%	11.71%	5.44%
LEOFF 2	8.62%*	8.46%	8.62%*	8.46%	8.62%*	8.46%	8.62%*	8.56%
PSERS	7.85%	6.55%	10.27%	6.36%	10.96%	6.36%%	11.69%	6.42%
WSPRS	6.57%	5.09%	8.07%	6.59%	8.07%	6.59%	8.01%	6.53%

*Represents State plus local gov. employer.

Employer rates include the 0.16% retirement systems administrative rate.

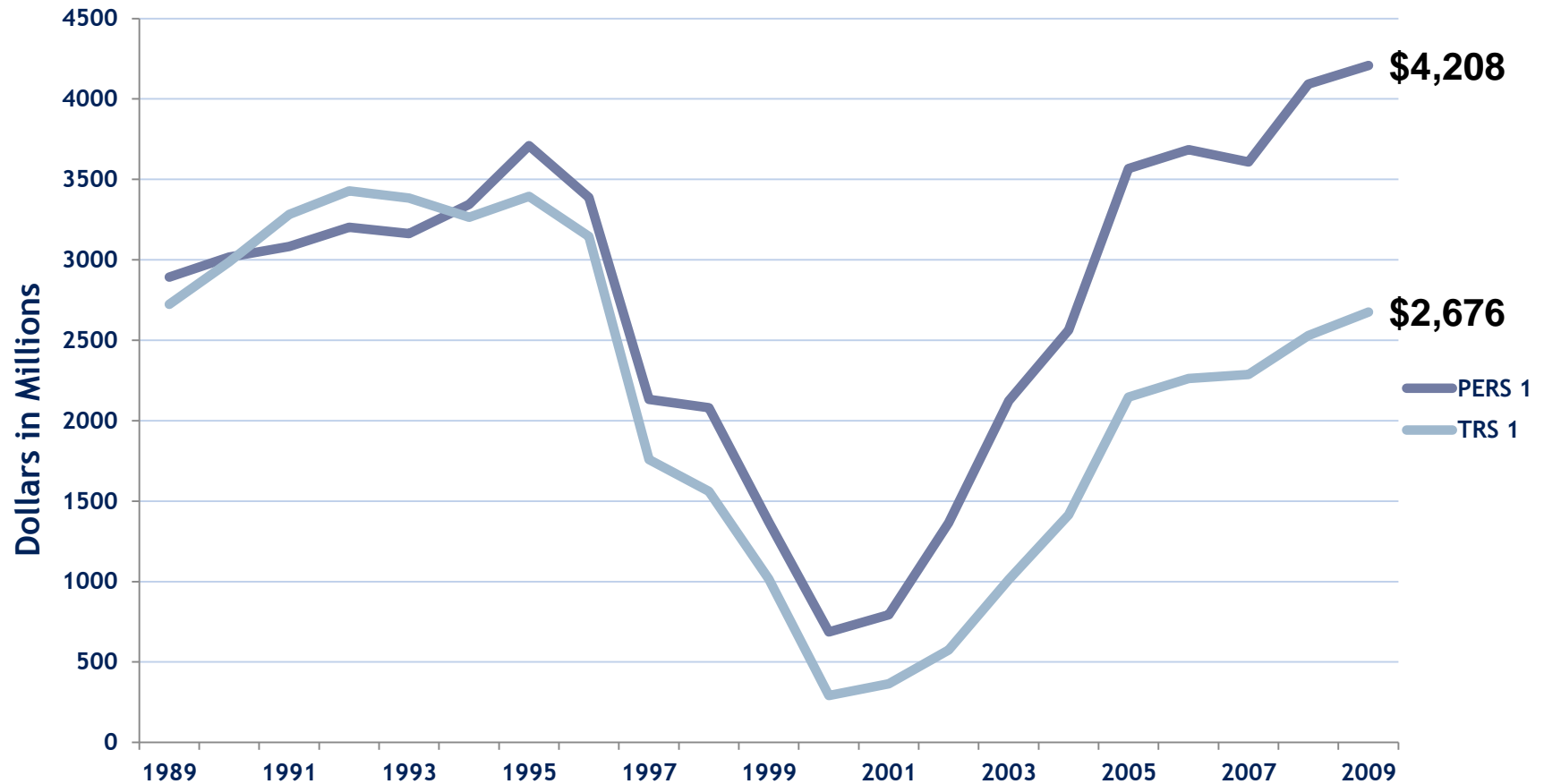
General Fund-State contribution requirements, especially for the Plan 1 legacy costs, are expected to continue to rise in each of the next eight biennia.



The UAAL are mainly related to benefits earned in the past that were not fully funded.

- ▶ Unfunded actuarial accrued liability is the difference between the plan's actuarial value of assets less its benefit obligations.
- ▶ A number of factors contributed to the creation of the unfunded liabilities including:
 - Major retroactive benefit increases and subsequent underfunding for the increases, and
 - Low investment returns followed by deferred contributions.

The UAAL dropped and then returned, generally trailing asset investment performance.



Source: Office of the State Actuary (OSA).

The Higher Education Retirement Plans have also shown increases in unfunded liability due to “unusual salary patterns” and poor investment returns.

- The HERPs are not actuarially evaluated like the other state retirement systems.
- The defined benefit “Supplemental Benefit” is growing – 80 percent of plan members are expected to receive at least some guaranteed benefit.

Unfunded Liability in Higher Education Retirement Plans

Institution	2007 Valuation	2009 Valuation
University of Washington	\$64.2 m	\$218.0 m
The Evergreen State College	\$1.4 m	\$4.3 m
Western Washington University	\$4.1 m	\$7.3 m
Central Washington University	\$2.1 m	\$5.8 m
Comm. And Tech. Colleges	\$35.6 m	\$55.0 m
Washington State University	\$17.5 m	\$40.0 m
Eastern Washington University	?	?
Higher Ed. Coordinating Bd.	New to HERP in 2010.	
Total:	\$124.9 m	\$330.4 m

The Governor's proposal includes three significant changes to state pension policy, saving about \$425 million GF-S in 2011-13 and \$12-15 billion GF-S or more over 25 years.

1. Eliminate automatic PERS and TRS Plan 1 annual increases.
 - Reduces 2011-13 contribution requirements by about \$370 million GF-S.
 - Reduces PERS and TRS Plan 1 unfunded liability by about \$4 billion.
 - The minimum benefits are maintained, and will continue to increase.
2. Eliminate subsidized early retirement for new members of the Plans 2/3.
 - Currently Plan 2/3 members with 30 years of service in PERS, TRS, and SERS may retire with early retirement benefits more costly than their equivalent value at the full retirement age of 65.
 - The subsidized early retirement provisions are eliminated for new hires.
 - Saves \$800-900 million GF-S over 25 years.
3. Cap state General Fund support HERP contributions at 6 percent, eliminate the Supplemental Benefit for new hires, and close HERP retire-rehire exception.
 - Capping GF-S funding for employer contributions at 6 percent saves about \$57 million GF-S in 2011-13.
 - Eliminating the Supplemental Benefit will reduce future costs.

The 2011-13 contribution rates reflect the 2008-09 investment losses, most of which were deferred by the smoothing method and will be recognized in future years, offsetting future gains.

Market Value of pension funds (Assets) at 6/30/2009: \$44,205

Deferred Investment Gains and (Losses):

<u>Plan Year Ending</u>	<u>Investment Return</u>	<u>Percent Deferred</u>	<u>Total</u>
6/30/2009	-22.8%	87.50%	(\$15,526)
6/30/2008	-1.2%	75.00%	(\$4,086)
6/30/2007	21.3%	62.50%	\$3,429
9/30/2006	16.7%	50.00%	\$1,783
9/30/2005	13.0%	37.50%	\$1,446
9/30/2004	16.7%	0.00%	\$0
9/30/2003	3.0%	0.00% -12.50%	\$166
Total Deferral:			(\$12,786)

Market Value less Deferral: \$56,991

Actuarial Value of Assets \$56,991